

DATE October 20, 1954

COPY NO.

OPERATIONS COORDINATING BOARD

Washington, D.C.

PROGRESS REPORT ON NSC 5403 (FINLAND)

REFERENCE: Memo from Executive Secretary, NSC, 1/25/54

OCB FILE NO. 43

State Department, NSC reviews completed

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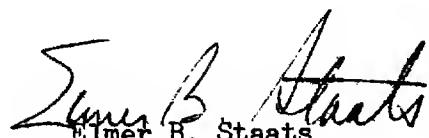
November 17, 1954

MEMORANDUM FOR THE OPERATIONS COORDINATING BOARD

SUBJECT: Progress Report on NSC 5403 (Finland)

The attached Operations Coordinating Board Progress Report on NSC 5403 "United States Policy Toward Finland," dated October 20, 1954, was noted by the National Security Council on November 9, 1954, Action No. 1267.

The previous draft of this report dated October 6, 1954 is obsolete and may be destroyed in accordance with the security regulations of your agency.


Elmer B. Staats
Executive Officer

Attachment:

OCB Executive Officer memo to NSC,
subject as above, dated 10/21/54,
with attachment as listed.

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

October 21, 1954

MEMORANDUM FOR: Mr. James S. Lay, Jr.
Executive Secretary
National Security Council

SUBJECT: Progress Report on NSC 5403 (Finland)
(Policy Approved by the President, January 25, 1954)

There is attached the first Progress Report on NSC 5403, "United States Policy Toward Finland" covering the period from January 25, 1954 through September 15, 1954. This report was approved by the Operations Coordinating Board on October 20, 1954.

In considering this report, the Board noted that since the cutoff date of this report Finland has shown interest in obtaining a loan of 3 to 5 million dollars and will probably apply to the Export Import Bank in the near future.

Elmer B. Staats
Elmer B. Staats
Executive Officer

Attachment:

Progress Report on NSC 5403
(Finland), dated 10/20/54.

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October 20, 1954

PROGRESS REPORT ON NSC 5403

UNITED STATES POLICY TOWARD FINLAND

Policy Approved by the President, January 25, 1954

A. SUMMARY OF MAJOR ACTIONS

(References are to paragraphs of ANNEX "A" - Detailed Development of Major Actions.)

1. Assistance toward convertibility of currency. The Finnish Government has been informed that the U.S. would support some type of appropriate assistance to Finland through the International Monetary Fund or perhaps some other channel which might be available. Exploration of various possibilities is under way. However, action must await moves toward convertibility for major trading currencies. (Para. 9)

2. U.S. support of Finnish requests to the International Bank. The interest of the U.S. with regard to the Finnish economy and our desire to assist Finland in any feasible manner was explained to officials of the IBRD in support of a pending Finnish request for an additional loan. As a result, the Bank expanded both the number of personnel and the scope of the study of the mission which it sent to Finland. It is understood that the mission is recommending a loan of \$10 to \$11 million. (Para. 10)

3. Possible Finnish membership in the European Payments Union. In response to Finnish approaches on this subject, the Finns were assured of U.S. monetary support; however, after careful study the Finnish Government decided that it would not seek to enter EPU but instead would await moves toward convertibility in the expectation that it could participate. (Para. 11)

4. Allotment and use of \$5 million in Finnmarks. A \$5 million allotment was made to Finland by FOA in February 1954 for purchases under the Surplus Agricultural Program. The current plan is to use the resulting proceeds in Finnish currency for the purchase of Finnish products. (Para. 12)

5. Facilitating Finnish exports and dollar earnings.

a. FOA procurement. Although FOA has actively attempted to include Finland in procurement programs, few actual transactions have materialized. These efforts will be continued. (Para. 13)

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b. Brazilian ship contracts. The strong interest of the U.S. in Finland's obtaining orders under a Brazilian ship program (in case U.S. firms do not obtain them) has been expressed on a number of occasions to the Brazilian Foreign Office. (Para. 13)

c. NATO Infra-Structure Program. An exploration of the possibility of Finnish participation in the construction of NATO infra-structure projects is under way as a part of the over-all consideration of participation of non-NATO countries in such programs. (Para. 13)

d. Treasury action relating to Finnish imports. The Hardboard Association of the U. S. filed a complaint on June 30, 1953 alleging that Finnish suppliers were dumping hardboard in the U. S. Following conferences with Finnish representatives during which it was made clear that no other course was available under U. S. legislation, the Treasury, on May 10, 1954, withheld appraisement of hardboard importations from Finland pending final decision. On August 31, 1954 the Treasury determined that a finding of dumping with respect to hardboard from Finland is not presently justified. (Para. 13)

6. Finnish cooperation on East-West trade controls.

a. New five-year trade agreement with USSR. In July the Finns signed a new trade agreement with the USSR covering 1956-60. Finnish officials estimate that trade with the USSR averaged over the five-year period will be about 10 per cent higher than in 1954, but they also expect at the same time an expansion of trade with the West of at least 10 per cent. A number of strategic export items were included in the agreement over the objection of our Minister, a joint statement on "peace" was issued, and the Soviet and Finnish diplomatic missions were raised to embassy status. On the other hand, the Finns resisted Russian pressure for a 50 per cent trade increase and a joint statement favoring Molotov's proposal for a European association of states. With regard to the proposed embassy status, the Finns encouraged, confidentially, Western powers to raise their missions to embassies and the U.S., France and the U.K. took this coordinated action on September 10, 1954. (Para. 15)

b. Ships for Communist China. Our Legation exerted considerable effort to stop the contract. Partly as a result of our efforts through meetings between our Minister and the shipbuilder, the Chinese reluctantly accepted three 3200-ton vessels (rated lower strategically on international lists) in place of an 8500-ton ship. (Para. 15)

7. Export of materials to Finland. The Department of the Army has approved a request from the Finns for a small quantity of weapons and ammunition to be used by the Finns for experimental research and development. (Para. 16)

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8. Combatting Communism. In addition to a full-range USIS program now in operation, plans have been completed for a program to combat communism in the north of Finland. In proportion to population the exchange of persons program with Finland is the largest in Europe. The program is considered highly effective. (Para. 17)
CIA will report separately.

B. OPERATIONAL CONSIDERATIONS BEARING ON POLICY

9. The NSC paper has been in effect eight months. Based on experience to date it is considered that the policy remains valid. It is the consensus that there have been some accomplishments as a result of the policy and that U.S. actions concerning Finland since January have contributed toward our basic objective of keeping Finland oriented toward the West. The Board notes that the internal political, psychological and subversive influence of the USSR in Finland remains a problem. It recognizes the delicacy of any U.S. activities in this field.

C. EMERGING PROBLEMS AND FUTURE ACTIONS

10. It is basic to our policy that Finland be economically healthy and therefore less subject to Soviet pressure. Fortunately, the Finnish economic situation is considerably better at the present time than it was last January when NSC 5403 was approved. In view of the present status of the Finnish economy, the question of any emergency type of economic assistance does not arise.

11. The fundamental need of the Finnish economy is, and has been since World War II, for internal reforms--chiefly of a fiscal nature, and of the high-cost structure of Finnish industry. It is believed that this problem can be attacked slowly and gradually and that U.S. assistance can play a part. For example, the Finns have expressed an interest in obtaining surplus U.S. agricultural items under P.L. 480. The working group will follow the application closely and examine various projects for use of the resulting local currency to strengthen the Finnish economy.

12. An effort is being made to bring Finland into the FCA program for sale of U.S. coal for local currency as soon as details can be worked out. The Finns have expressed an interest in 700,000 tons because Poland, normally the principal coal supplier to Finland, is not meeting its trade agreement commitments.

13. Thus, there is an opportunity to demonstrate U.S. willingness to assist Finland, to reduce Finnish deliveries of copper to Poland in return for coal, and to use the resulting local currency to finance increased Finnish exports to countries receiving U.S. aid.

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14. The Treasury Department has one dumping case and one countervailing duty case pending against Finnish companies. The Hardboard-Plywood Institute filed a complaint on November 30, 1953 alleging dumping of Finnish plywood in the U. S. The Customs appraiser in New York, on October 15, 1953, raised the question whether countervailing duties should be applied to Finnish plywood because of a grant or bounty to Finnish exporters. A representative of the Bureau of Customs will go to Helsinki early in October to ascertain the facts relating to these cases. If a finding of dumping or subsidy results, importations of Finnish plywood would be liable to additional duties. Should this occur, it would present a significant problem on which the working group probably would wish to make recommendations to the Board. (Para. 13)

15. A special problem has emerged as a result of the recent trade agreement with the USSR; that is the question as to what might be done on our part to prevent or hinder delivery to Russia of the highly strategic icebreakers and tankers. There may be no adequate solution to this problem. However, one possibility which will be explored is the desirability and effectiveness of obtaining agreement by COCOM countries to withhold exports to Finland of embargo-type components which are destined for use in the Finnish ship construction program for Russia.

D. EXTENT OF AGENCY INTERESTS

16. Treasury participated in the preparation of this Report.

Attachment:

ANNEX "A" - DETAILED DEVELOPMENT OF MAJOR ACTIONS.

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ANNEX "A" - DETAILED DEVELOPMENT OF MAJOR ACTIONS

Statement of Actions by Paragraphs of NSC 5403:

Paragraph 9: "Be prepared, at Finnish request, to make available limited economic assistance to Finland, if required to achieve the foregoing objective, including, if necessary, seeking a waiver of Battle Act requirements."

In July the President of the Bank of Finland and the Director approached our Minister on the subject of the possibility that the Finnmark might become convertible at the same time that other Western countries make the convertibility move. They stated that the chief requisite for such a move by Finland was adequate monetary reserves and asked if the U.S., at the proper time, would be willing to extend a standby credit in order to bring Finland's monetary reserves to the level deemed necessary. The Finns were told that we agreed on the desirability that Finland move toward convertibility if its general financial situation permitted, and that the U. S. would support some type of appropriate assistance to Finland through the International Monetary Fund or perhaps some other channel which might be available. It was pointed out that there was no need for urgent action on this matter and that various possibilities of assistance would be explored. The possibility of credits by the Federal Reserve System is under review by the System.

Finland's external financial position has improved since NSC 5403 was adopted. Aside from the \$5 million sale of tobacco and cotton for local currency mentioned above, no U. S. aid has been programmed for Finland. It should be noted, however, that in the current fiscal year U. S. ability to extend dollar aid would be limited since dollar funds which will be available to FOA for all purposes will be severely limited. (See also action under 12 below)

Paragraph 10: "Continue to support Finnish requests to the International Bank for sound loans to meet investment and development requirements."

The International Bank for Reconstruction and Development has made four loans to Finland approximating \$38 million since 1949 and as of the end of 1953 a Finnish request for an additional loan had been pending at the Bank for several months. The Bank expected to send a small team (three persons) of experts to Finland in connection with this application but no specific date had been set. A first meeting was held with IIRD officials on December 15, 1953, at the request of the Department of State. The interest of the U. S. with regard to the state of the Finnish economy and our

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desire to assist Finland in any feasible manner was explained to Bank officials. The need for precise and full economic data on Finland was set forth in considerable detail and the Bank was requested to consider seriously sending an expanded team of experts to Finland as soon as possible. As a result of these discussions, an IBRD mission of seven persons departed for Finland about the middle of April and stayed until about mid-May. The report of the mission has not yet been issued but it is understood that it will recommend another loan of some \$10-\$11 million which would be extended in Western European currencies. About two-thirds of the loan would be devoted to purchases of machinery and equipment for the woodworking industry and most of the remaining one-third for equipment for electric power projects. When the Bank's complete report is made available it will, of course, be of considerable assistance in making a correct determination as to the need for economic assistance and the sectors where investment would be most worthwhile. The report should also be of considerable interest and use to Finnish Government officials and perhaps some of the recommended courses of economic action can be put into effect by the Government.

The Working Group will continue to follow closely the course of this loan application.

Paragraph 11: "Support Finnish initiative, if it develops, to become a member of the European Payments Union, and if necessary, contribute towards an initial credit for Finland in the European Payments Union."

Several informal Finnish approaches on this subject were received by our Legation officials during the latter part of 1953, and it was evident the Finns were interested in an exploration of the possibilities of EPU membership. After study they were informed in February that if they wished to associate themselves with the European Payments Union they could be assured of United States support and further that the United States would consider the necessity for an initial credit position and of contributing toward it. Although the Finns were not informed, it had been decided to consider contributing \$10 million from Mutual Security funds. At the same time a study was requested by the Organization of European Economic Cooperation Secretariat of the Finnish payments position in order to see how Finland might fit into and benefit from EPU membership.

Our missions in Sweden, Norway and Denmark were also informed of Finnish interest in EPU and the subject was discussed with appropriate government officials in Norway and Sweden, especially with regard to the point of possible Scandinavian sponsorship for Finland. In June the Finns completed their own study of advantages

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and disadvantages of an association by them with EPU and informed our Legation that they did not believe that it would provide a solution to Finland's external payments problems. The principal reasons appeared to be the probable limited life of EPU and the greater advantage of Finland attempting to participate in a convertibility move which they believed would occur soon. Other reasons against joining were Finland's unwillingness to accept EPU liberalization requirements in view of insufficient currency reserves, and possible objections to Finland entry by other EPU countries. The Finns did, however, express appreciation for the offer of assistance from the United States.

Our Legation has recently been queried as to any possible change in the Finnish viewpoint as a result of recent developments which make it appear that progress toward convertibility may not be quite as rapid as hitherto envisaged, and secondly that EPU has been reviewed and will continue at least through Fiscal 1955 unless a substantial degree of convertibility is achieved in the meantime. It is believed, however, that the Finnish position will remain the same.

Paragraph 12: "Seek to stimulate the import of Finnish products by the West, particularly the United States, the United Kingdom and Western Germany."

A \$5 million allotment was made to Finland in February 1954 for the purchase of cotton and tobacco under Section 550 of the Mutual Security Act (surplus agricultural commodities program). The FOA press release of February 11 on this transaction was given minimum publicity by USIA media in view of the sensitive negotiations and Soviet-Finnish trade negotiations. Of the resulting local currency proceeds, up to \$2 million worth of Finnmarks has been earmarked for the purchase of items useful in earthquake rehabilitation projects in Greece. The utilization of the remaining \$3 million worth of Finnmarks in this program has not been decided although several projects are under study by the U. S. agencies concerned. The most promising is the possibility of utilizing these Finnmarks for the purchase of prefabricated housing units for use in the refugee program in Berlin.

Finland's external financial position has improved since NSC 5403 was adopted. Aside from the \$5 million sale of tobacco and cotton for local currency mentioned above, no U.S. aid has been programmed for Finland. It should be noted, however, that in the current fiscal year U.S. ability to extend dollar aid would be limited since dollar funds which will be available to FOA for all purposes will be severely limited.

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Paragraph 13: "In various administrative actions, including those involved in U. S. procurement programs, aid to other countries, and import regulations, take into account the desirability of facilitating Finnish exports and dollar earnings."

FOA Procurement

FOA has had an active program in operation to attempt to include Finland in FOA financed procurement. However, owing to the limited range of products offered for export by the Finnish economy, few actual transactions have materialized, including contracts for transporting FOA financed petroleum products in Finnish tankers. U. S. financed off-shore procurement of a military nature has been precluded owing in part to Finnish reluctance to engage in the manufacture of warlike equipment. State has asked Defense to explore again the possibilities of OSP in Finland. The Army is currently considering procuring ordnance equipment from Finland for technical study.

Brazilian Ship Contracts

The Brazilian Government has had under consideration, since at least the fall of 1953, a large ship construction program and Finnish shipbuilders discussed with Brazilian authorities during 1953 the possibility of obtaining part of these contracts. Our strong interest in furthering the possibility of Finland obtaining these orders (in case U.S. firms do not obtain them) has been discussed several times with the Brazilian Foreign Office. So far, however, details of the shipbuilding program have not been approved by the Brazilian Government. If and when the program goes through, it is believed that there might be a possibility for some type of barter arrangement to be worked out for the benefit of Finland.

Possible Finnish Participation in NATO Infra-Structure Program.

As further evidence of U. S. interest in Finland's economy, the United States is suggesting that Finland approach the proper NATO authorities with a view to participating in the international NATO infra-structure program in the context of the recent decision to operate this program on the principle of international competitive bidding.

Treasury Action Relating to Finnish Imports.

Two dumping and one countervailing duty case under U. S. Tariff Acts have been pending throughout 1954. With regard to the industry complaint that Finnish suppliers were dumping hardware in the United States, it was made clear to Finnish representatives that the only course which Treasury could follow was

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to withhold appraisement of such imports from Finland pending final decision on the charge. The Finns raised their U. S. prices in April but not enough to bring them surely above foreign market value. Treasury press releases with respect to initial U. S. actions on Finnish hardboard were furnished USIS in Helsinki with policy guidance specifying a minimum of publicity in view of anticipated unfavorable reaction. Usually Treasury requires special high-premium dumping bonds but in this case (and in similar ones from now on) it was decided that bonds covering ordinary duties were sufficient. On August 31, 1954 the Treasury stated that a finding of dumping with respect to hardboard from Finland is not presently justified. Trade in this commodity is now normal.

A dumping charge and a countervailing duty question had been raised in connection with Finnish plywood exports to the U. S. Preliminary information does not support the dumping charge but a representative of the Bureau of Customs will go to Helsinki early in October to ascertain the facts relating to these cases. Appraisement of Finnish plywood has been informally suspended since March, pursuant to a provision of the Customs Manual. No formal notice has been given of this fact. The Finns have not complained about this action and the trade (about \$3 million annually) did not appear to be affected through June, the latest month for which statistics were available. If a finding of dumping or subsidy results from an analysis of the facts, importations of Finnish plywood would be liable to additional duties. Should this occur, it would present a significant problem on which the Working Group probably would wish to make recommendations to the Board. (See also action under Paragraph 12 above.)

Paragraph 15: "While recognizing Finland's peculiar position with relation to the USSR, seek practicable Finnish cooperation on East-West trade controls."

New Five-Year Trade Agreement with USSR

In July, after several months negotiation, the Finns signed a new trade agreement with the USSR covering the period 1956-60. The signing of an agreement 18 months before its effective date was apparently a result of Soviet initiative and undoubtedly part of overall Soviet policy to bring Finland closer and closer to the USSR. Total trade during the period is projected at about \$1.5 billion in accordance with specified lists of commodities. Competent Finnish officials estimate that Finland's trade with the USSR averaged over the period will be about 10 per cent higher than in 1954 but they also expect at the same time an expansion of trade with the West of at least 10 per cent. If this occurs, Russian participation in Finnish trade would not increase but remain percentage-wise at about the same figure as in 1953 and 1954. Finnish officials have informed us that they regard the relatively small trade increase agreed with the USSR as a signal victory on the part of Finland in view of the fact that the Russians pressed hard for a 50 per cent trade increase.

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During the lengthy negotiations, our Minister discussed with top-level Finnish officials on numerous occasions our desire that there be as few strategic Finnish export items as possible in the agreement, and the strength of U. S. feeling on this matter was made known at every opportunity. Nevertheless, the final agreement contains a large number of items of strategic concern, especially three icebreakers, 20 tankers and 3-4000 tons of copper and copper products. Whereas the existing agreement contains about 33 per cent Finnish shipyard products, the new one includes about 37 per cent of the total for such items.

The Soviets attempted to make the signing of the trade agreement dependent on the issuance by the Finns of two statements, one associating the Finns with the Soviet peace campaign and the other expressing Finnish approval of Molotov's proposal for a European association of states. The Finns succeeded in avoiding subscribing to the latter, but did consider it necessary to join in a communique on the subject of "peace" which they considered did not really go any further than they had already gone in connection with the Finnish-Soviet Treaty of Friendship of April 6, 1948. The Russians, in fact, accepted a modified Finnish draft of the communique. Nevertheless, a psychological impact was created by the issuance of a joint statement on "peace" in conjunction with a trade agreement.

In another unexpected political move tied to the trade agreement the Soviets proposed raising the diplomatic missions of the two countries to embassy status. In this matter also the Finns felt that they could not avoid assenting. At the same time they encouraged, confidentially, Western powers to raise their missions to embassies, and the United States, France and the United Kingdom took this coordinated action on September 10, 1954.

Ships for Communist China

In March, the Finnish Government informed our Legation that a Finnish shipbuilder was negotiating construction of a (second) 8500-ton cargo ship for Communist China. Under instructions, our Legation exerted considerable effort to stop the contract. Partly as a result of our efforts and of meetings between our Minister and the shipbuilder, the outcome of the Finnish-Chinese negotiations as embodied in the trade agreement was reluctant Chinese acceptance of three 3200-ton vessels (rated lower strategically on international lists) in place of the 8500-ton ship.

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Paragraph 16: "Although a careful case-by-case review should be made in order to minimize any contribution which U. S. exports to Finland might make to the Eastward flow of strategic items from Finland, continue to export available materials which are necessary to Finland's economy."

On July 9, 1954, the Department of the Army approved a request from the Finnish Government, received through the U. S. Army Attache, for weapons and ammunition to be used by the Finns for experimental research and development. This materiel (value approximately \$28,300) will be delivered to Finland about October of this year and will be provided without cost to that country.

Paragraph 17: "Covertly assist Finland to combat communism."

Combatting Communism

In addition to a full-range USIS program, which includes press, films, and library activities, plans have been completed for a program to combat communism in the North of Finland. Publications, films, and exhibits will be directed to the inhabitants of logging camps and isolated communities in the provinces of Lapland, Oulu, and Kuohio. The project, which is strictly an overt operation, has the approval of the Finnish Government.

Exchange of Persons

In proportion to population the exchange of persons program with Finland under P.L. 265 and P.L. 584 is the largest in Europe and has resulted in a constant flow to the United States of Finnish leaders and specialists. The program is considered highly effective. Finnish officials have given strong praise to the beneficial effect of the program on Finnish-American relations.

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